



Memorandum

To: Honorable Members of the House Regulatory Reform Committee
From: Michigan Craft Distillers Association
Re: Support of Senate Bill 448
Date: December 7, 2016

On behalf of the Michigan Craft Distillers Association, we encourage your support of Senate Bill 448.

The Michigan Liquor Control Commission collects more money off a bottle of spirits distilled by our state's small distillers than the distiller themselves. This doesn't even take into account the cost in obtaining the raw materials, process production, bottling, labeling, labor, closure, and case shipments.

Given the financial disincentive to open and grow a small distillery in Michigan, we appreciate the efforts of Senator Proos in offering this legislation to help promote our Pure Michigan craft distilling industry. Indeed, we all recognize the benefits from the strategic decisions Michigan's made in the past to provide relief for craft breweries and wineries, and we welcome this legislative effort to support our state's small distillers as well.

Today's substitute essentially makes two changes from the legislation that passed the Senate. The first reduces the state markup for all distillers. This constitutes a 10% reduction in the state markup over a span of 20 years. While this first change affects both large and small distillers, it is difficult for a small distiller to see any measurable benefit because they do not have large enough production capacity or the economies of scale to "move the needle."

As such, the second change is narrowly tailored to provide relief to only small distillers by providing them a rebate derived from the state markup on their product. This relief is \$15.00 per gallon, which equates to just under \$3.00 per bottle. Compared to the bill that passed the Senate, this is roughly half of what a small distiller would have seen on a fifth of spirits with a \$30.00 shelf price, and roughly a quarter of the rebate a small distiller would have realized on a bottle with a \$60.00 shelf price.

While the total relief provided our state's craft distillers is much less under today's substitute than the bill as introduced, or even as it passed the Senate, we understand the need to keep the bill revenue neutral. As such, we appreciate Senator Proos' efforts to ensure any costs associated with this legislation will be offset by year-over-year growth from liquor sales the state will continue to realize. Moreover, with this substitute the state will continue to keep most of the revenue it currently brings in through the sale of craft spirits in Michigan.

By working to provide relief to Michigan's craft distillers, we will help make our industry more competitive, especially compared to our neighboring states, while still generating revenue to the state from the sales of spirits our members produce. We greatly support any effort to promote our industry and believe it will help benefit our entire state, just as we have already seen through efforts on behalf of craft beer and wine.

On behalf of our statewide membership, thank you for your much anticipated support of Michigan craft distillers. We encourage you to move Senate Bill 448 from committee.